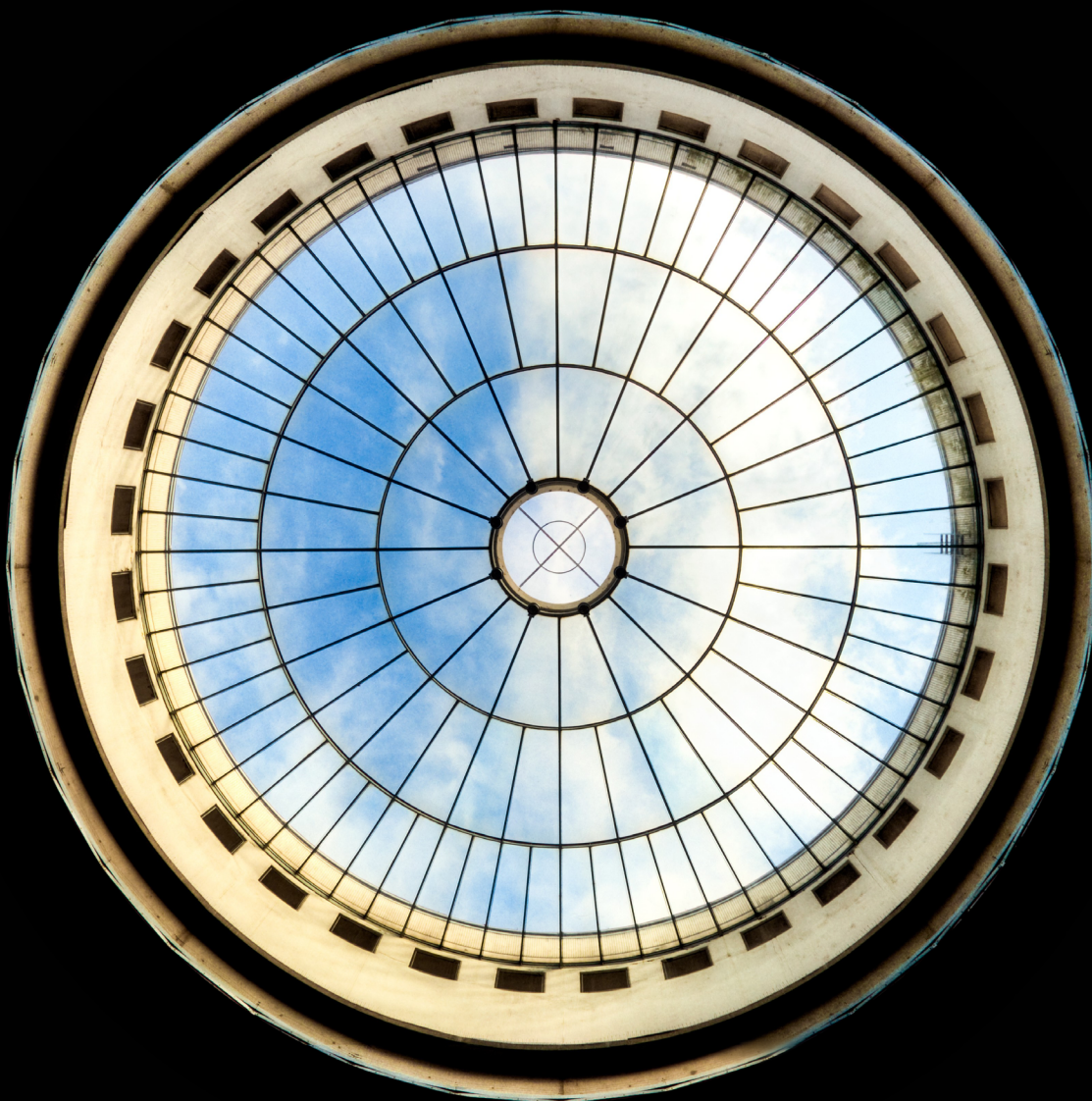


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Access Economics



A silver lining
Queensland Business Outlook
May 2017

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Economic snapshot

December quarter 2016

Queensland's economic growth is solid with state final demand in positive territory up 1.8%, supporting job growth, with employment up 0.6% in March 2017.

The spectacular lift in gas exports is buoying the state's economy, providing a substantial dividend to Queensland's economic growth.

We often refer to a gap between actual economic growth and the reality being felt in the regions – as a lack of a 'feel good factor' in Queensland's economy. This is because those sectors of the economy that are going well are not job-intensive.

Faster growth in China and elsewhere has lifted energy prices and boosted coking coal prices in particular. Although peak pricing has passed, it is part of the wider good news story for Queensland's economic backdrop, with global conditions improving as Australian interest rates fall.

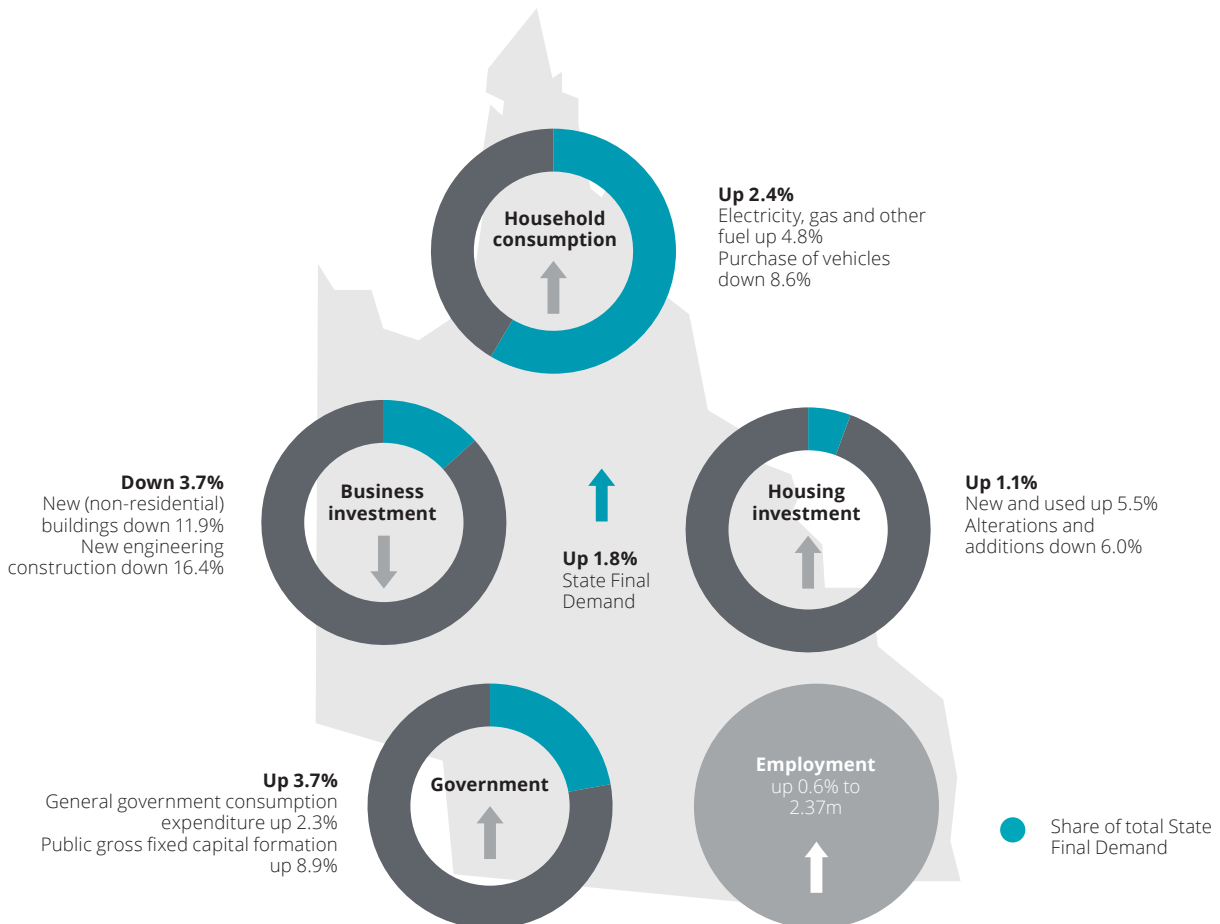
Although the \$A is no longer falling, its earlier falls are still playing out. This is excellent news for the tourism industry and the numbers of foreign students choosing to study in Queensland.

When it comes to the building and construction sector, we may not yet be quite at the bottom of the 'construction cliff', but we are much closer than before.

Once this passes, it will take a very large negative out of the equation.

The pace of turnover growth for Queensland's retailers accelerated over the last year, catching the national average. This is ensuring a pretty solid outlook in the short term, with household consumption up 2.4%.

It is increasingly clear that the trough in population growth in late 2015 is also passing, with Queensland rapidly closing in on the national population growth average. Indeed, there's potential for Queensland to surpass the national average at some stage in the next couple of years.



Notes: Real, year-on-year; Seasonally adjusted figures; Employment to March 2017; State Final Demand to December 2016
Sources: ABS 5206.0; ABS 6202.0

Economic outlook

The growth outlook for Queensland is 3.4% each year on average across the forecast period to 2020. Over the next three years we can expect a real leg up from a surge in gas exports. Queensland's state final demand is recovering and this is contributing to a positive outlook for the state, boding well for the future.

Although gas exports provide a substantial dividend to the state's economic growth, they do less for jobs. That combination of conditions may take a little longer to repair, so a continued focus on job creation is essential.

There is also much to repair across the state in the wake of cyclone Debbie.

This disaster was a double edged sword, delivering real disaster for some farmers, but welcome rain to others. In this Quarter we outline findings from a report by the Australian Business Roundtable for Disaster Resilience and Safer Communities on the economic cost and social impact of disasters, and outline four areas to help recovery and prepare for the future.

Queensland has the largest area of agricultural land of any Australian state and the highest proportion of land area dedicated to agriculture. Some 30,500 businesses carry out agricultural activity in Queensland, and agricultural industries contribute more than \$10 billion to the state's economy each year.

To this end we provide an overview of the outlook for agriculture in general. There was a lift in this year's crop, but more rain also has meant less beef production, as farmers try to rebuild their herds after the drier times of previous years.

Indeed, Queensland is the engine room of Australia's beef and sugar industries, and delivers a significant portion of Australia's cotton crop. The outlook for these commodities is promising; with growing global and Asian demand, Queensland is well positioned to deliver.



Economic growth

Gross State Product

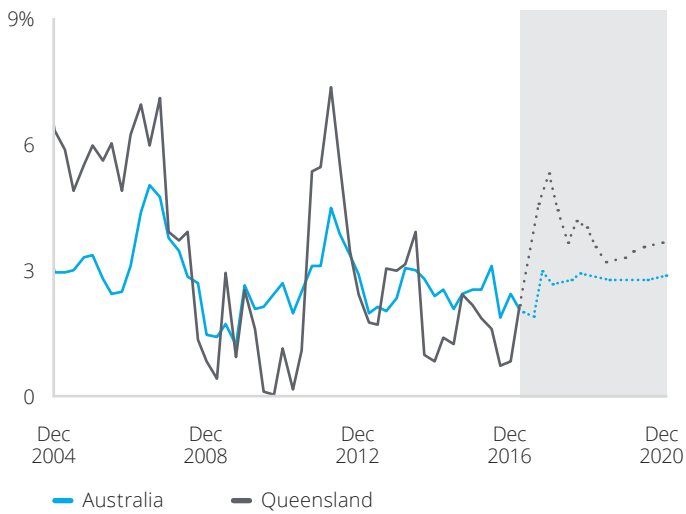
Queensland's gross state product is expected to remain above the national average. The growth outlook is 3.4% each year on average across the forecast period to 2020. We expect Queensland to benefit significantly from the surge in gas exports. And looking further ahead, rising export earnings will eventually help tilt the growth pendulum back to Queensland from 2018 onwards.

State final Demand

Queensland's state final demand is recovering and this is contributing to a positive outlook for the state, boding well for the future. Our forecasts predict that State Final Demand will remain strong with average growth per year of 3.0% out to 2020.

Gross State Product

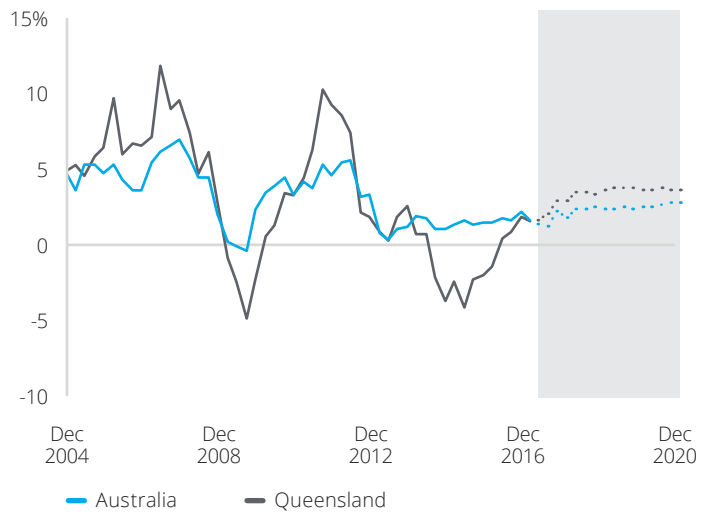
Constant price, annual % change



Source: ABS, Deloitte Access Economics

State final demand

Constant price, quarterly % change



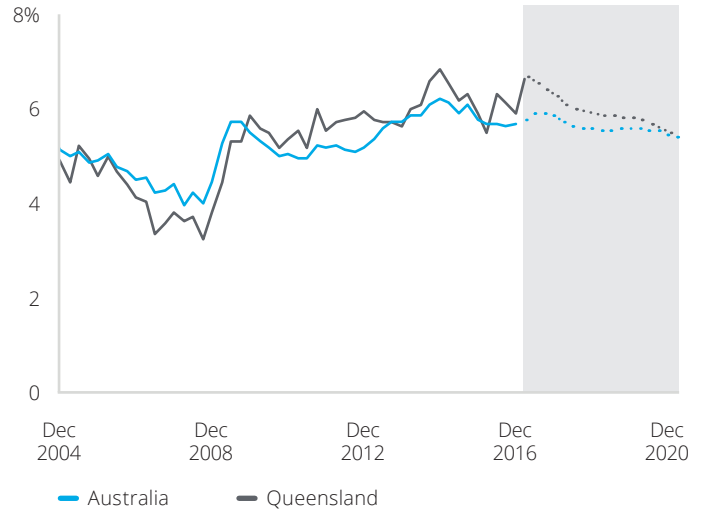
Source: ABS, Deloitte Access Economics

Labour markets

Queensland's unemployment rate is expected to remain around the national average at about 6% over the forecast period to 2020. Economic growth is solid, but jobs growth is modest. Gas exports provide a substantial dividend to the State's economic growth, but does not translate into jobs.

This means a continued focus on job creation is key for supporting this repair particularly in regional Queensland.

Unemployment rate %



Source: ABS, Deloitte Access Economics

International exports

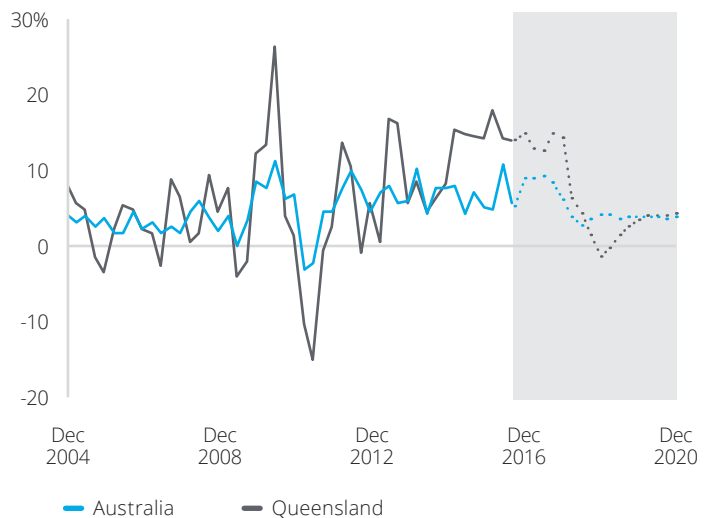
Queensland's international exports have grown by \$8.3 billion (or 17.0% in nominal terms) to reach \$57.1 billion over the year to February 2017.¹

LNG prices did enjoy a strong rally compared with 2016, although it is not expected to move the dial on any significant new LNG investment. Conditions for investment in coal have been favourable, but this is a similar story to LNG.

Of the \$3.4 billion in projects underway, all are scheduled to wrap up by the middle of this year.

International exports

Constant price, quarterly % change



Source: ABS, Deloitte Access Economics

1. Exports of Queensland goods overseas, February 2017, Queensland Government Statistician's Office (source ABS 5368.0)

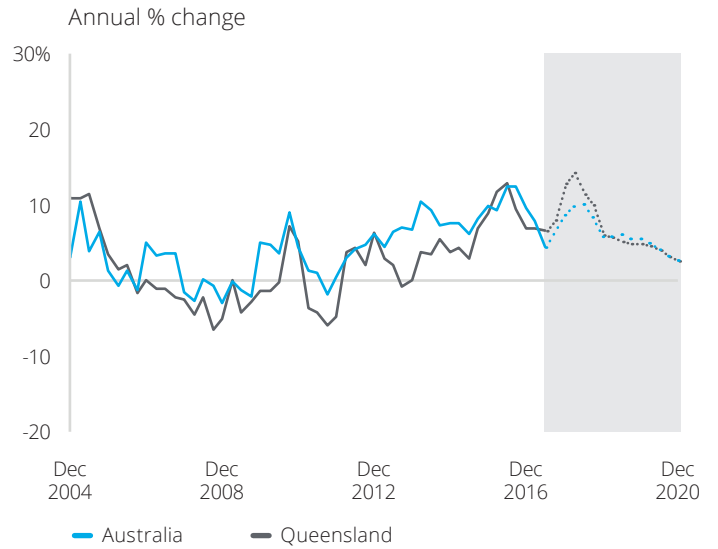
Tourism

Queensland's international tourist arrivals are expected to remain solid over the forecast period, averaging 7.4% out to 2020.

Commercial construction continues to be supported by the strength of the tourism sector. Geographic proximity to China, cheaper flights and an \$A that, although on the rise, is well below the highs of the past decade, are all encouraging more visitors to Queensland.

This has also flowed into investment spending, with hotels and resorts making up more than two thirds of the total commercial construction pipeline for Queensland.

International tourist arrivals



Source: ABS, Deloitte Access Economics

In focus: Agriculture

Queensland has both the largest area of agricultural land of any Australian state and the highest proportion of land area dedicated to agriculture. Around 30,500 businesses are involved in agricultural activity in Queensland, with agricultural industries contributing more than \$10 billion to the state's economy each year.²

Queensland is the engine room of Australia's beef and sugar industries, and delivers a significant portion of Australia's cotton crop. Given the promising outlook for these commodities from growing global and Asian demand, Queensland is well positioned to both benefit and deliver.

The following factors will shape the outlook for three of Queensland's key export agricultural commodities.

Beef

Over the next four years, the Australian beef cattle herd is expected to increase to 26.6 million head, growing at 2% p.a. This growth is against the backdrop of a beef cattle herd that had been in decline since in 2014.

The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) expects the weighted average saleyard price and export unit value to peak in 2016-17. ABARES forecasts that average prices through to 2021-22 will remain above \$4 per kilogram (saleyard) and \$6 per kilogram (live export).

Increasing competition from the US into our common export markets and lower US import demand for grinding beef (including Australian beef) will increase price competition for Australian beef. In addition competition from South American beef into China could decrease Australia's market share in this emerging market.

Live export beef cattle prices are forecast to remain strong, with ABARES expecting 2016-17 to reach a peak unit value of just over \$1,200 per head. The 'million head' milestone (which was exceeded in both 2014-15 and 2015-16) is not expected to be reached again until 2021-22.

What this means for Queensland:

Re-building the herd is a key focus for Queensland farmers given the recent drought across western and northern Queensland. Re-stocking demand will support prices for younger and store-type cattle.

Although slaughter and saleyard prices could come under pressure as processors react to softer export demand for grinding beef, the overall outlook for beef exports remains very favourable with prices and opportunity primarily due to growing Asian demand.

The recent approval of additional export-accredited processing facilities for exports to China is a favourable development as it will provide additional market access for Australian beef.

The live export outlook might be at lower volumes than in the past, but with stronger prices, overall returns for this beef segment are likely (on balance) to be better overall.

2. <https://www.business.qld.gov.au/industries/farms-fishing-forestry/agriculture/overview>

Queensland is the engine room of Australia's beef and sugar industries, and delivers a significant portion of Australia's cotton crop.

Sugar

Australian sugar export earnings are forecast to increase by 10% in 2017-18 due to incremental crop yield gains and firmer global prices.

Domestic production is forecast to grow over the next few years through increased planted areas and yields.

What this means for Queensland:

The key driver is that global consumption of sugar will grow faster than production, leading to a lower stocks-to-use ratio and firmer prices for Australian growers. Local prices are expected to rise to an estimated A\$54 per tonne in 2021-22.

This higher price environment will occur, according to ABARES forecasts, despite increased Queensland production. So there could be potential in the short-term to accelerate total Queensland production through further increases to planted areas or increased yield gains.

This short-term however will be influenced by the impact of Cyclone Debbie on Queensland cane crops. Current industry estimates of crop damage are \$150 million. However this figure may increase once the 2017 harvest, and subsequent milling activity, gets underway and sugar quality impacts, if any, can be quantified.

Cotton

On a global scale, cotton consumption is exceeding production so leading to a decline in the stock-to-use ratio. By 2021-22 the global stock-to-use ratio is expected to decline below 60% - the lowest level since 2011-12.

China remains the world's largest purchaser of raw cotton, but China's share of consumption growth is slowing as lower cost Asian textile mills gain market share. ABARES analysis indicates that China reached 'peak cotton' with a stockpile of almost 15 million tonnes in 2014-15. By June 2018, China's stockpile will have fallen by a third, despite the nation maintaining its minimum raw cotton import obligation of 900,000 tonnes per annum.

What this means for Queensland:

Australian cotton growers will benefit from improved irrigation dam levels and firmer global prices. On that basis, we expect a significant area of irrigated cotton to be planted next summer. In the event of favourable winter and spring rainfalls during calendar year 2017, the area planted next season to dryland cotton could also be higher (although with the appropriate yield differential compared to irrigated cotton).

The global market dynamic appears to be shifting. While China remains the key import market (at least for the next four years), south-east Asian countries could become increasingly important trading partners for raw cotton.

In focus: Agriculture

While the outlook for Queensland's beef, sugar and cotton industries is favourable, more can be done to exploit trade opportunities and position Queensland's agricultural sector to further benefit from the population-driven demand from Asia and the shifting global marketplace.

Suggested actions include:

- Further accreditation of Queensland-based abattoirs for exports to China
- Further development of streamlined value chains in beef (including cold chain continuity) to China's consumers
- Ongoing promotion and market development of beef into established Asian export markets if Queensland is to protect its current market share in the face of increasing competition from other significant beef exporting nations

- Value-adding opportunities (such as shelling, roasting, salting and packaging) for Queensland macadamia exports, particularly for the growing markets in Japan, China and South Korea
- Supply of counter-seasonal produce, such as mangoes, to growing Asian markets
- Queensland fresh fruits and vegetables generally would benefit from enhanced fruit fly treatment protocols to meet growing Asian export market demand
- Regular supply of high protein grains and pulses, including mung beans and soybeans, for emerging niche market opportunities especially in Asia. If these market opportunities are to be developed, then a concerted industry development effort is required in Queensland

- New free trade agreements with the next wave of booming Asian economies (such as India) and the United Kingdom (following the Brexit decision)
- Foster relationships with the emerging cotton textile mills in south-east Asia and further develop our competitive advantage in premium cotton segments and sustainability-produced cotton

Queensland's agribusiness sector has a bright future. Our proximity to growing Asian populations and reputation for quality produce are key differentiators, the challenge is to make the most of the specific opportunities identified and market positions already established.



In focus: The economic cost and social impact of natural disasters



Information on all costs of natural disasters is required to understand the full impact of natural disasters on our communities and the economy

In focus: The economic cost and social impact of natural disasters

Natural disasters affect all states and territories in Australia. They have an enormous impact on people, the environment and our communities

Since cyclone Debbie hit at the end of March, Queenslanders have yet again felt the effects of a natural disaster. The category four cyclone wreaked havoc over much of the state. In Australia, natural disasters incur billions of dollars in tangible costs to individuals, businesses and governments. Beyond the known economic costs, it is well recognised that natural disasters also have wide-ranging social impacts that often persist beyond the immediate high impact for the rest of a person's life.

While there is considerable evidence of social impacts, our knowledge of their

economic cost is not well understood. Where data permits, Deloitte has both quantified and identified, the social impacts of natural disasters, including those on health and wellbeing, education, employment and community networks. When considered alongside the tangible costs originally highlighted in the Deloitte Access Economics' 2013 report Building our Nation's Resilience to Natural Disasters, a much richer picture emerges of the total economic cost of natural disasters to Australia.

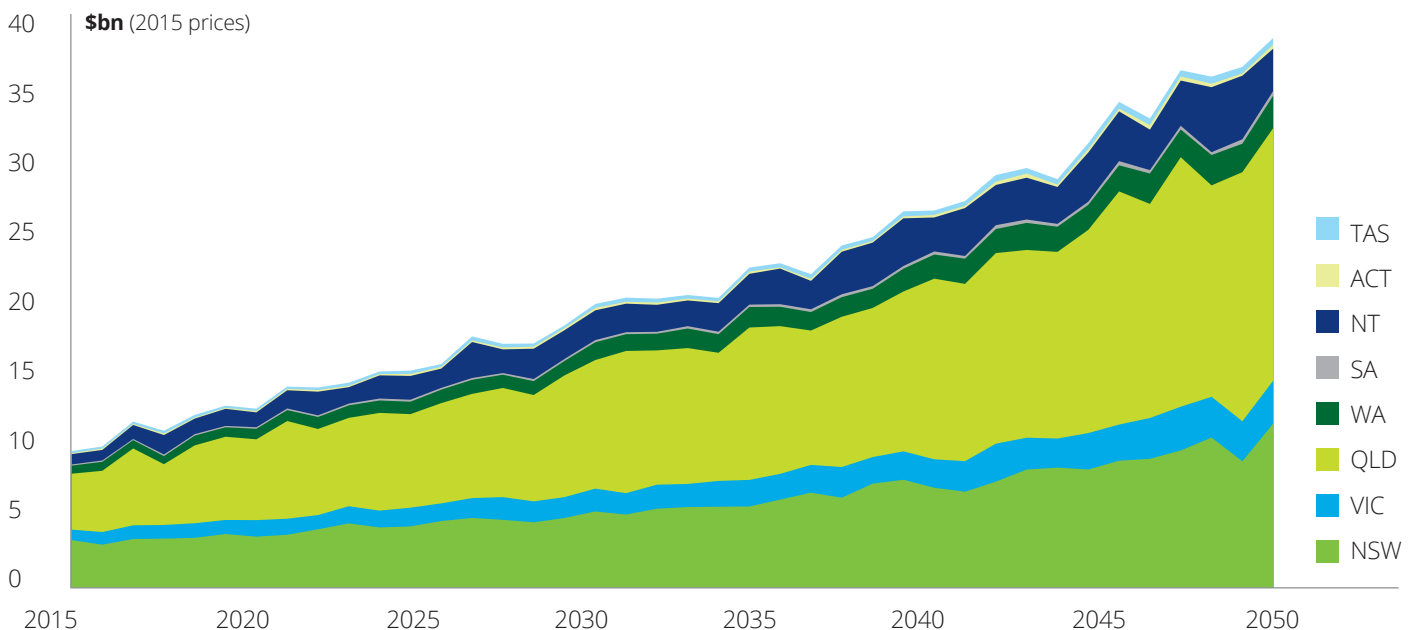
A report led by The Australian Business Roundtable for Disaster Resilience & Safer Communities found that in 2015, the total economic cost of natural disasters in an average year - including tangible and intangible costs - exceeded \$9billion. This is equivalent to about 0.6% of gross domestic product (GDP) in the same year. This is expected to almost double by 2030 (\$18bn) and to average \$33billion per

year by 2050 in real terms (Chart ii), even without considering the potential impact of climate change.

Clearly comprehensive information on all costs of natural disasters is required to understand the full impact of natural disasters on our communities and economy, and the extent to which expenditure on mitigation and resilience measures is effective.

The Deloitte report demonstrates the social costs of natural disasters equal the more traditionally defined economic costs - and sometimes are even higher. It is clear that a greater effort should be invested in the preparedness of individuals, in particular long-term psycho-social recovery. This would include community development programs and support for areas such as health and wellbeing, employment and education.

2015-50 forecast of the total economic cost of natural disasters, identifying costs of each state



Source: The Australian Business Roundtable for Disaster Resilience & Safer Communities

The research offers four recommendations to help reduce the long-term social impacts and economic costs of natural disasters.

01. Pre- and post-disaster funding should better reflect the long-term nature of social impacts.

The analysis shows that the intangible costs of natural disasters are at least as high as the tangible costs. Significantly, they may persist over a person's lifetime and profoundly affect communities. While building resilience into infrastructure is important, it should be accompanied by measures to ensure social and psychological wellbeing. It is crucial that funding and policies acknowledge the long-term social impacts of natural disasters.

02. A collaborative approach involving government, business, not-for-profits and community is needed to address the medium and long-term economic costs of the social impacts of natural disasters.

Individuals, businesses, governments and communities all feel the social impacts of natural disasters. These impacts are complex and touch all levels of government and cross all portfolios, from infrastructure and

planning, to health, and education. This highlights the importance of a collaborative effort to build resilience, including coordinated approaches that consider all aspects of natural disasters: direct and indirect, tangible and intangible. This collaborative perspective should be considered within planning processes, to ensure disaster resilience is integrated across various portfolios in accordance with the National Strategy for Disaster Resilience (NSDR).

03. Governments, businesses and communities need to further invest in community resilience programs that drive learning and sustained behaviour change.

It is clear that funding disaster mitigation measures should focus on building physical infrastructure such as flood levees as well as funding social and psychological measures. This would include community awareness, education and engagement programs that enhance social capital by building social networks and connections. While these preventative measures require up-front funding, they yield a return on investment by lessening the overall impact of a natural disaster on

individuals, businesses, governments and communities.

04. Further research is needed into how to quantify the medium and long-term costs of the social impacts of natural disasters.

While the complex social impacts of natural disasters are undisputed, there is currently a lack of consistent data to reliably quantify the cost. Direct and tangible impacts are usually considered as 'one-offs', but intangible social impacts tend to persist over time.

Hence, data collection needs to better incorporate this temporal component to track and fully appreciate the long-term effects of natural disasters. The report shows that the social impacts of natural disasters tend to be multiple and interrelated. Importantly, the experience of grief and trauma varies from person to person. It is therefore necessary to understand both the primary and secondary impacts of natural disasters on individuals and communities.

For more information regarding this report go to: [The economic cost of the social impact of natural disasters](#)



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Business outlook

Business Outlook, released quarterly, is specifically designed for business analysts and strategic managers. Subscribers to the standard hard copy or electronic subscription are also eligible to purchase the Business Outlook on CD. The CD subscription contains forecasts out ten years, in quarterly, calendar and financial year formats as well as detailed history and charts, all in excel.

Employment forecasts

Employment Forecasts, released quarterly, provides forecasts and commentary for each industry, plus white collar, blue collar and office demand index (where the latter draws on the 'office intensity' of each industry). There are three levels of data available: State, City and CBD. Employment Forecasts is particularly useful in the analysis of property market demand.

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The quarterly Investment Monitor lists around 900 Australian investment projects, each valued from \$20 million. Projects are divided by State, sector and status (ie, possible, under consideration, committed, under construction). The publication also contains commentary on industry trends, and company contact details for those companies involved in the projects.

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